

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Harper Woods, Michigan</u>	County <u>Wayne</u>
Audit Date <u>December 31, 2005</u>	Opinion Date <u>April 28, 2006</u>	Date Accountant Report Submitted To State: <u>June 30, 2006</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>10 South Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043-7908</u>
Accountant Signature 			

City of Harper Woods, Michigan

**Financial Report
with Supplemental Information
December 31, 2005**

City of Harper Woods, Michigan

Mayor and City Council

Mayor
Mayor Pro Tem

Kenneth A. Poynter
Vivian M. Sawicki

Council Member
Council Member
Council Member
Council Member
Council Member

Cheryl A. Costantino
Michael P. Monaghan
John M. Szymanski
Hugh Marshall
Daniel S. Palmer

City Administration

City Manager

James E. Leidlein

City Clerk

Mickey D. Todd

City Treasurer

Enid L. Pierson

Finance Director

Laura Stowell

City Auditors

Plante & Moran, PLLC

City of Harper Woods, Michigan

General Comments

The City is administered under a council-manager form of government in accordance with a home rule charter as adopted by the electors on October 24, 1951 and subsequently amended.

The elective officials of the City consist of six council members and the mayor, all of whom are nominated and elected from the City at large. Three of its members are elected to the council every two years for four-year terms. The mayor is elected every two years for a two-year term.

City officials who are appointed by and sit at the pleasure of the council are the manager, clerk, and treasurer. All other administrative officers are appointed by the manager, subject to confirmation by the council.

City of Harper Woods, Michigan

Contents

Introductory Section

Administrative Organizational Chart	I
--	----------

Financial Section

Report Letter	2-3
----------------------	------------

Management's Discussion and Analysis	4-8
---	------------

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Assets	9
Statement of Activities	10-11

Fund Financial Statements:

Governmental Funds:

Balance Sheet	12-13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17

Proprietary Funds:

Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20

Fiduciary Funds:

Statement of Net Assets	21
Statement of Changes in Net Assets	22

Notes to Financial Statements	23-41
-------------------------------	-------

City of Harper Woods, Michigan

Contents (Continued)

Required Supplemental Information

Budgetary Comparison Schedules:	
General Fund	42
Major Special Revenue Funds:	
Library Fund	43
Municipal Improvements Fund	44
Employees' Retirement System:	
Schedule of Funding Progress	45
Schedule of Employer Contributions	46

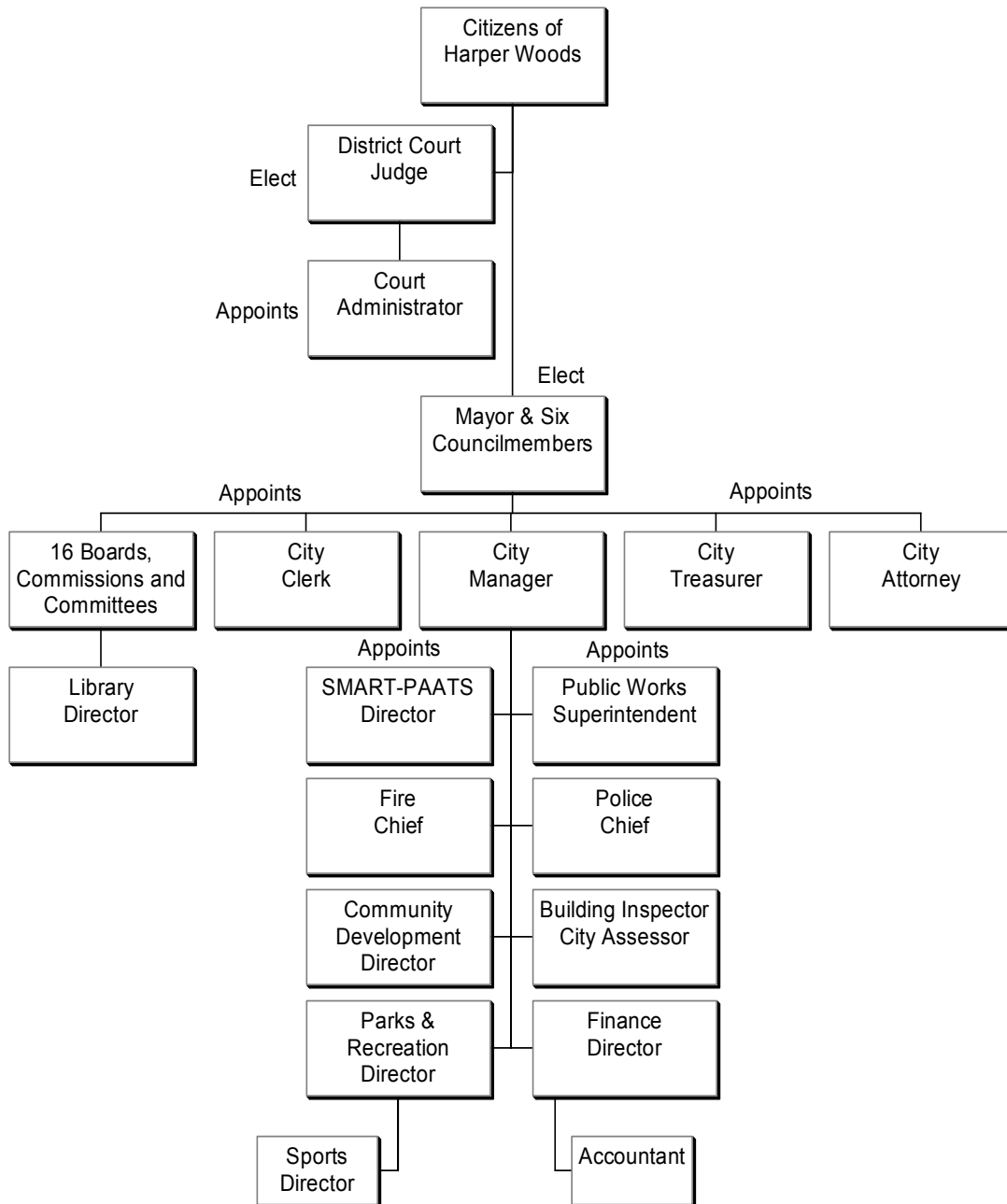
Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	47-48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49-50
Fiduciary Funds - Combining Statement of Assets and Liabilities - Agency Funds	51
Internal Service Funds:	
Combining Statement of Net Assets	52
Combining Statement of Revenue, Expenses, and Changes in Net Assets	53
Combining Statement of Cash Flows	54

Introductory Section

City of Harper Woods, Michigan

CITY OF HARPER WOODS ADMINISTRATIVE ORGANIZATION CHART



Financial Section



Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Harper Woods, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan (the "City") as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and the employees' retirement system schedules of funding progress and employer contributions, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members
of the City Council
City of Harper Woods, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harper Woods, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 28, 2006

City of Harper Woods, Michigan

Management's Discussion and Analysis

This section of the annual financial report for the City of Harper Woods, Michigan (the "City") is our discussion and analysis of the City's performance for the fiscal year ended December 31, 2005. Please read it in conjunction with the City's financial statements which follow.

Using this Annual Report

This annual report includes a series of financial statements. There are two kinds of statements that follow which present different views of the City. The statement of net assets and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This kind of statement measures the cost of providing services for the year and shows whether the taxpayers have funded the full cost of providing government services and uses the accrual basis of accounting.

The second kind of statement includes the fund financial statements, which show the status of the City in more detail. The fund financial statements also show how the services and programs of the City were financed in the short term. The fund statements include the fiduciary fund statements, which provide information about activities in which the City acts solely as a trustee or agent for benefit of those outside the government.

The City of Harper Woods as a Whole

The following table shows, in a condensed format, the assets as of December 31, 2005 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 22,552	\$ 26,968	\$ 947	\$ 512	\$ 23,499	\$ 27,480
Noncurrent assets -						
Capital assets	26,637	23,760	3,257	3,386	29,894	27,146
Total assets	49,189	50,728	4,204	3,898	53,393	54,626
Liabilities						
Current liabilities	13,624	13,462	536	528	14,160	13,990
Long-term liabilities	15,919	17,416	-	-	15,919	17,416
Total liabilities	29,543	30,878	536	528	30,079	31,406
Net Assets						
Invested in capital assets -						
Net of related debt	10,456	9,080	3,257	3,386	13,713	12,466
Restricted	4,162	5,347	-	-	4,162	5,347
Unrestricted net assets						
(deficit)	5,028	5,423	411	(16)	5,439	5,407
Total net assets	<u>\$ 19,646</u>	<u>\$ 19,850</u>	<u>\$ 3,668</u>	<u>\$ 3,370</u>	<u>\$ 23,314</u>	<u>\$ 23,220</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased less than 1 percent from a year ago - from \$23.2 million to \$23.3 million. The governmental activities decreased by 1.0 percent. This is a result of the nonmajor funds (local street, major street, and refuse funds) incurring losses this year. The business-type activities' net assets increased by 8.8 percent as a result of the operating gain in the Water and Sewer Fund.

The following table shows the change in net assets for the year ended December 31, 2005 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 3,247	\$ 3,014	\$ 2,753	\$ 2,662	\$ 6,000	\$ 5,676
Operating grants and contributions	1,026	1,039	-	-	1,026	1,039
General revenue:						
Property taxes	9,171	8,676	-	-	9,171	8,676
State-shared revenues	1,564	1,581	-	-	1,564	1,581
Interest	470	206	56	19	526	225
Franchise fees	155	151	-	-	155	151
Miscellaneous	242	250	-	-	242	250
Total revenue	15,875	14,917	2,809	2,681	18,684	17,598
Program Expenses						
General government	4,182	3,863	-	-	4,182	3,863
Public safety	6,067	6,175	-	-	6,067	6,175
Public works	4,383	3,949	-	-	4,383	3,949
Recreation and culture	854	1,120	-	-	854	1,120
Interest on long-term debt	593	509	-	-	593	509
Water and sewer	-	-	2,511	2,819	2,511	2,819
Total program expenses	16,079	15,616	2,511	2,819	18,590	18,435
Net Change in Net Assets	(204)	(699)	298	(138)	94	(837)
Net Assets - Beginning of year	19,850	20,549	3,370	3,508	23,220	24,057
Net Assets - End of year	<u>\$ 19,646</u>	<u>\$ 19,850</u>	<u>\$ 3,668</u>	<u>\$ 3,370</u>	<u>\$ 23,314</u>	<u>\$ 23,220</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Total revenues for the City's governmental activities were \$15.9 million for 2005. The City again experienced a decrease in state-shared revenues. However, interest income increased.

Expenses for the City's governmental activities totaled \$16.1 million for 2005. Total expenses increased by approximately 3 percent with public works showing the largest increase. The other activities which provide direct City services (e.g., general government, public safety, etc.) are showing small increases or have decreased over the last year.

The following represents the most significant financial highlights for the year ended December 31, 2005:

The City's continued diligence to curb spending was able to offset the large reduction in revenue, mainly caused by state-shared revenue cuts. The City did not make reductions in City service areas, but instead maintained spending in the service areas. Capital outlays were reduced. There were several long-term employees who left or retired whose payouts resulted in higher wages reported than expected.

Interest income showed marked improvement and exceeded the anticipated level. The City will continue to look at its investing policy to find the best opportunities for good rates of return.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide potable water to our residents. The City pumps its sewage to the City of Detroit for treatment and disposal. This year's operations were positive, despite the City of Detroit's Water and Sewer Department increases in rates. The positive outcome is primarily due to Wayne County's invoicing changes for sewer and drain charges. Beginning in 2005, 50 percent of the excess flow is charged to the Storm Drain Fund for Milk River Drain maintenance.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities. The City's major funds are the General Fund, Library Fund, Municipal Improvements Fund, General Obligation Bonds Fund, Storm Drain Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire services, which incurred expenses of approximately \$5.1 million in 2005. The General Fund is supported primarily by property taxes and state-shared revenue.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

The Library Fund records the activities of the library and, this year, the activity of the renovation. The Library is funded primarily by property taxes and the construction bond. The Storm Drain Fund manages the Milk River Drain, debt, and maintenance. It is funded by a storm water utility charge based on property area and imperviousness. The General Obligation Bond Fund records activity for the street bond and the Municipal Improvement Fund is held for special improvements and was funded by cable proceeds when the City sold its interest in the Grosse Pointe cable system several years ago. It is the policy of the City that the principal of the Municipal Improvement Fund be held for major capital improvements only. The interest earnings have been utilized for major equipment outlays.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor the budget and, if necessary, amend the budget to take into account unanticipated events that occur during the year. There were no amendments made in 2005. Significant revenue budget variances were due to the increased revenue from service fees and improved interest rates on invested cash. Significant expenditure variances were due to the cost of health care as well as employee wages and retiree payouts.

Capital Asset and Debt Administration

At the end of fiscal year 2005, the City had \$29.9 million invested in capital assets (land, buildings, equipment, vehicles, water, sewer, and storm lines).

Debt reported in these financial statements is related to the three general obligation street bonds issued in 1995, 1999, and 2001, the Milk River-County Drain Bonds, the Library Bonds, and smaller debt issues related to the police radio system purchase. The street bonds have a maturity in 2014, the Milk River various bonds have final maturity in 2012, the Library bond has a maturity in 2024, and radio system debt matures in 2006.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face challenges with the cuts in state-shared revenue, the impact of Proposal A, and the slow recovery in interest revenues we experienced in the past. The City will need to watch the budget closely and consider amendments as necessary.

On the expense side of the equation, medical insurance continues to be a rising cost and concern. The City has researched alternative plans and switched to a new plan for employees whose union contracts have been negotiated. Water rates have not been increased since 2004 and, because of the rates imposed by the City of Detroit, we will need to monitor the budget in the Water and Sewer Fund closely and again make amendments and adjustments as necessary.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with an overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Harper Woods' finance department.

City of Harper Woods, Michigan

Statement of Net Assets December 31, 2005

	Primary Government			Brownfield Redevelopment Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 14,385,342	\$ 1,752,467	\$ 16,137,809	\$ -
Receivables:				
Taxes	4,742,618	-	4,742,618	-
Customers	-	927,783	927,783	-
Interest and other	46,775	-	46,775	136,625
Service fee	744,882	-	744,882	-
Other governmental units	618,456	-	618,456	-
Internal balances (Note 5)	1,738,246	(1,738,246)	-	-
Inventories and prepaid expenses	206,988	5,083	212,071	-
Investment in joint venture (Note 9)	68,483	-	68,483	-
Capital assets (Note 4):				
Assets not being depreciated	760,574	-	760,574	-
Assets being depreciated - Net	25,876,124	3,256,760	29,132,884	-
Total assets	49,188,488	4,203,847	53,392,335	136,625
Liabilities				
Accounts payable	474,208	490,403	964,611	-
Accrued and other liabilities	664,850	45,851	710,701	-
Rehabilitation escrow	297,255	-	297,255	-
Deferred property tax revenue (Note 1)	10,542,180	-	10,542,180	136,625
Noncurrent liabilities (Note 6):				
Due within one year	1,645,295	-	1,645,295	-
Due in more than one year	15,919,420	-	15,919,420	-
Total liabilities	29,543,208	536,254	30,079,462	136,625
Net Assets				
Invested in capital assets - Net of related debt	10,455,811	3,256,760	13,712,571	-
Restricted:				
Streets and highways	348,080	-	348,080	-
Debt service	2,274,547	-	2,274,547	-
Refuse	1,381,053	-	1,381,053	-
Drug enforcement	90,418	-	90,418	-
Library	67,515	-	67,515	-
Unrestricted net assets	5,027,856	410,833	5,438,689	-
Total net assets	\$ 19,645,280	\$ 3,667,593	\$ 23,312,873	\$ -

City of Harper Woods, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Governmental activities:				
General government	\$ 4,182,214	\$ 1,234,930	\$ 77,233	\$ -
Public safety	6,067,267	378,045	115,300	-
Public works	4,382,682	1,515,762	827,041	-
Recreation and culture	853,662	118,228	6,201	-
Interest on long-term debt	593,175	-	-	-
Total governmental activities	16,079,000	3,246,965	1,025,775	-
Business-type activities - Water and sewer	2,511,400	2,753,068	-	-
Total primary government	<u>\$ 18,590,400</u>	<u>\$ 6,000,033</u>	<u>\$ 1,025,775</u>	<u>\$ -</u>

General revenues:

Property taxes
State-shared revenues
Interest
Cable franchise fees
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended December 31, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (2,870,051)	\$ -	\$ (2,870,051)
(5,573,922)	-	(5,573,922)
(2,039,879)	-	(2,039,879)
(729,233)	-	(729,233)
(593,175)	-	(593,175)
(11,806,260)	-	(11,806,260)
-	241,668	241,668
(11,806,260)	241,668	(11,564,592)
9,171,481	-	9,171,481
1,564,000	-	1,564,000
469,875	55,716	525,591
154,529	-	154,529
242,378	-	242,378
11,602,263	55,716	11,657,979
(203,997)	297,384	93,387
19,849,277	3,370,209	23,219,486
<u><u>\$ 19,645,280</u></u>	<u><u>\$ 3,667,593</u></u>	<u><u>\$ 23,312,873</u></u>

City of Harper Woods, Michigan

	Major Funds		
	Special Revenue Funds		
	General Fund	Municipal Improvements Fund	Library Fund
Assets			
Cash and investments (Note 3)	\$ 3,352,245	\$ 2,512,203	\$ 191,548
Receivables:			
Taxes	3,493,012	-	192,254
Interest and other	16,891	11,679	464
Service fee			
Other governmental units	454,961	-	-
Inventories and prepaid expenses	198,406	-	-
Due from other funds (Note 5)	5,355,558	588,287	501,900
Total assets	\$ 12,871,073	\$ 3,112,169	\$ 886,166
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 150,754	\$ -	\$ 243,136
Accrued and other liabilities	469,467	-	10,132
Due to other funds	3,640,852	174,380	194,126
Rehabilitation escrow	-	-	-
Deferred property tax revenue (Note 1)	6,761,536	-	371,257
Total liabilities	11,022,609	174,380	818,651
Fund Balances			
Reserved:			
Inventories and prepaid expenses	198,406	-	-
Drug law enforcement	-	-	-
Unreserved:			
Designated (Note 12)	964,600	2,937,789	12,800
Undesignated	685,458	-	54,715
Unreserved - Reported in Nonmajor Special Revenue Funds:			
Designated (Note 12)	-	-	-
Undesignated	-	-	-
Total fund balances	1,848,464	2,937,789	67,515
Total liabilities and fund balances	\$ 12,871,073	\$ 3,112,169	\$ 886,166

**Governmental Funds
Balance Sheet
December 31, 2005**

Debt Service Funds			
General Obligation Bonds Fund	Storm Drain Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,095,399	\$ 4,252,825	\$ 1,962,661	\$ 14,366,881
632,073	-	425,279	4,742,618
3,675	-	14,066	46,775
	744,882	-	744,882
-	-	163,495	618,456
-	-	8,582	206,988
427,278	-	4,656,434	11,529,457
\$ 3,158,425	\$ 4,997,707	\$ 7,230,517	\$ 32,256,057
\$ -	\$ -	\$ 75,032	\$ 468,922
10,550	48,238	20,550	558,937
1,578,368	1,646,881	3,326,290	10,560,897
-	-	297,255	297,255
1,214,924	1,382,624	811,839	10,542,180
2,803,842	3,077,743	4,530,966	22,428,191
-	-	8,582	206,988
-	-	87,418	87,418
-	170,000	-	4,085,189
354,583	1,749,964	-	2,844,720
-	-	1,214,000	1,214,000
-	-	1,389,551	1,389,551
354,583	1,919,964	2,699,551	9,827,866
\$ 3,158,425	\$ 4,997,707	\$ 7,230,517	\$ 32,256,057

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended December 31, 2005

Fund Balance - Total Governmental Funds	\$ 9,827,866
--	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	26,355,701
--	------------

Investments in joint ventures are not reported in the funds	68,483
---	--------

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(16,180,887)
---------------	--------------

Accrued interest payable	(103,694)
--------------------------	-----------

Compensated absences	(1,383,828)
----------------------	-------------

Internal Service Funds are included as part of governmental activities	<u>1,061,639</u>
--	------------------

Net Assets - Governmental Activities	<u>\$ 19,645,280</u>
---	-----------------------------

City of Harper Woods, Michigan

	Major Funds		
	Special Revenue Funds		
	General	Municipal	Library Fund
	Fund	Improvements Fund	
Revenue			
Property taxes	\$ 6,811,952	\$ -	\$ 364,022
Federal sources	79	-	-
State sources	1,584,119	-	6,201
Charges for services	1,675,284	-	-
Interest	101,951	85,448	36,988
Service fees	-	-	-
Licenses and permits	126,483	-	-
Miscellaneous revenue	403,458	-	55,639
Total revenue	10,703,326	85,448	462,850
Expenditures			
Current:			
General government	4,974,483	-	4,000
Public safety	5,099,747	-	-
Public works	502,342	-	-
Recreation and culture	472,037	-	370,711
Capital outlay	-	124,829	3,191,549
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	11,048,609	124,829	3,566,260
Excess of Revenue Over (Under) Expenditures	(345,283)	(39,381)	(3,103,410)
Other Financing Sources (Uses)			
Transfers in	195,000	-	100,000
Transfers out	(100,000)	(100,000)	-
Total other financing sources (uses)	95,000	(100,000)	100,000
Net Change in Fund Balances	(250,283)	(139,381)	(3,003,410)
Fund Balances - Beginning of year	2,098,747	3,077,170	3,070,925
Fund Balances - End of year	<u>\$ 1,848,464</u>	<u>\$ 2,937,789</u>	<u>\$ 67,515</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2005

Debt Service Funds			
General		Other	
Obligation		Nonmajor	Total
Bonds	Storm Drain	Governmental	Governmental
Fund	Fund	Funds	Funds
\$ 1,176,316	\$ -	\$ 784,740	\$ 9,137,030
-	-	96,263	96,342
-	-	753,903	2,344,223
-	-	103,747	1,779,031
65,998	110,678	68,300	469,363
-	1,422,210	-	1,422,210
-	-	-	126,483
-	-	53,108	512,205
<u>1,242,314</u>	<u>1,532,888</u>	<u>1,860,061</u>	<u>15,886,887</u>
-	-	124,830	5,103,313
-	-	9,603	5,109,350
-	1,143,740	2,388,891	4,034,973
-	-	-	842,748
-	-	-	3,316,378
575,000	581,030	-	1,156,030
565,133	133,894	-	699,027
<u>1,140,133</u>	<u>1,858,664</u>	<u>2,523,324</u>	<u>20,261,819</u>
102,181	(325,776)	(663,263)	(4,374,932)
-	-	234,000	529,000
-	-	(399,000)	(599,000)
-	-	(165,000)	(70,000)
102,181	(325,776)	(828,263)	(4,444,932)
252,402	2,245,740	3,527,814	14,272,798
<u>\$ 354,583</u>	<u>\$ 1,919,964</u>	<u>\$ 2,699,551</u>	<u>\$ 9,827,866</u>

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net Change in Fund Balances of Governmental Funds **\$ (4,444,932)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures 4,231,058

Depreciation expense (1,276,451)

Repayment of bond principal is an expenditure in the 1,249,047

governmental funds, but not in the statement of activities

Interest expense is recorded when incurred in the statement 12,610

of activities

Income from a joint venture is reported in the statement of activities as it is earned; this revenue is reported in the governmental funds when distributions are received:

Joint venture income 66,502

Joint venture distribution (78,673)

Compensated absence liabilities are recorded when earned 151,747

in the statement of activities

Internal Service Funds are included as part of governmental (114,905)

activities

Change in Net Assets of Governmental Activities **\$ (203,997)**

City of Harper Woods, Michigan

Proprietary Funds Statement of Net Assets December 31, 2005

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments (Note 3)	\$ 1,752,467	\$ 18,461
Customer receivables	927,783	-
Due from other funds (Note 5)	421,503	2,334,196
Inventories	5,083	-
Total current assets	3,106,836	2,352,657
Noncurrent assets - Capital assets being depreciated - Net (Note 4)	3,256,760	280,997
Total assets	6,363,596	2,633,654
Current Liabilities		
Accounts payable	490,403	5,286
Accrued and other liabilities	45,851	2,219
Due to other funds	2,159,749	1,564,510
Total current liabilities	2,696,003	1,572,015
Net Assets		
Investment in capital assets - Net of related debt	3,256,760	280,997
Unrestricted net assets	410,833	780,642
Total net assets	<u>\$ 3,667,593</u>	<u>\$ 1,061,639</u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Business-type Activities <u>Water and Sewer Fund</u>	Governmental Activities <u>Internal Service Funds</u>
Operating Revenue		
Customer billings	\$ 2,745,374	\$ -
Billings to other funds	-	210,324
Other revenue	<u>7,694</u>	<u>-</u>
Total operating revenue	2,753,068	210,324
Operating Expenses		
Cost of materials	-	78,965
Water supply and sewage disposal	1,745,547	-
Maintenance and operation	358,223	171,284
General and administrative expenses	278,425	68,000
Depreciation	<u>129,205</u>	<u>77,492</u>
Total operating expenses	<u>2,511,400</u>	<u>395,741</u>
Operating Income (Loss)	241,668	(185,417)
Nonoperating Revenue - Interest income	55,716	512
Other Financing Sources (Uses)		
Transfers in	-	120,000
Transfers out	<u>-</u>	<u>(50,000)</u>
Change in Net Assets	297,384	(114,905)
Net Assets - Beginning of year	<u>3,370,209</u>	<u>1,176,544</u>
Net Assets - End of year	<u><u>\$ 3,667,593</u></u>	<u><u>\$ 1,061,639</u></u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2005

	Business-type Activities Water and Sewer Fund	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers and other funds	\$ 2,284,786	\$ 32,674
Payments to suppliers, employees, and other funds	(2,171,481)	(32,674)
Other receipts	7,694	-
Net cash provided by operating activities	120,999	-
Cash Flows from Investing Activities - Interest received on investments	55,716	512
Net Increase in Cash and Cash Equivalents	176,715	512
Cash and Cash Equivalents - Beginning of year	1,575,752	17,949
Cash and Cash Equivalents - End of year	<u><u>\$ 1,752,467</u></u>	<u><u>\$ 18,461</u></u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 241,668	\$ (185,417)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	129,205	77,492
Changes in assets and liabilities:		
Receivables	(136,365)	
Due from other funds	(324,224)	(177,650)
Inventories	514	
Accounts payable	30,145	(4,369)
Due to other funds	201,863	292,376
Accrued and other liabilities	(21,807)	(2,432)
Net cash provided by operating activities	<u><u>\$ 120,999</u></u>	<u><u>\$ -</u></u>

There were no significant noncash investing or financing activities during the year ended December 31, 2005.

City of Harper Woods, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2005

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System	Agency Funds
Assets		
Cash	\$ 103	\$ 3,129,241
Investments:		
Mutual funds	17,478,021	-
U.S. government securities	4,259,209	-
Corporate bonds	8,054,639	-
Common stocks	7,918,963	-
Accrued interest and dividends receivable	481,345	-
Total assets	38,192,280	<u><u>\$ 3,129,241</u></u>
Liabilities		
Tax collections distributable	-	\$ 3,073,875
Bond deposits	-	35,888
Due to other governmental units	184,058	19,478
Total liabilities	184,058	<u><u>\$ 3,129,241</u></u>
Net Assets - Held in trust for pension benefits	<u><u>\$ 38,008,222</u></u>	

City of Harper Woods, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended December 31, 2005

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System
Additions	
Investment income:	
Interest and dividends	\$ 1,487,538
Net appreciation in fair value of investments	458,387
Less investment expenses	<u>(188,405)</u>
Net investment income	1,757,520
Employee contributions	403,357
Employer contributions	<u>149,082</u>
Total additions	2,309,959
Deductions	
Benefit payments	2,015,365
Refunds to employees	810,903
General and administrative expenses	<u>14,137</u>
Total deductions	<u>2,840,405</u>
Net Decrease in Net Assets	(530,446)
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>38,538,668</u>
End of year	<u><u>\$ 38,008,222</u></u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Harper Woods, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harper Woods, Michigan:

Reporting Entity

The City is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these general purpose financial statements present the City of Harper Woods, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The District Court, although legally separate from the City, is included as an Agency Fund since the City has a fiduciary responsibility for funds received at the District Court. The City also has a Brownfield Redevelopment Authority, which began activity in the current year with a single site. However, the Authority's sole activity during 2005 was collecting property tax revenue which is deferred until 2006.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major funds:

Governmental Funds

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Library Fund accounts for the City's library activities. Financing is provided through a tax levy and charges to customers.
- The Municipal Improvements Fund accounts for resources that have been earmarked for future capital projects within the City.
- The General Obligation Bonds Fund accounts for the annual payment of principal and interest on outstanding unlimited tax general obligation bond issues. Financing is provided through a tax levy.
- The Storm Drain Fund accounts for the annual payment of principal and interest on the City's share of Wayne County storm drain improvement bonds as well as related maintenance costs on the drains. Financing is provided through a service fee charged to all properties within the City.

The City reports the following major Enterprise Fund:

- The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

- Internal Service Funds are used to account for the financing of services by one department to other departments of the City primarily on a cost-reimbursement basis.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Pension and Other Employee Benefit Trust Fund accounts for the activities of the employees' retirement system that accumulates resources for pension payments to qualified employees.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's ongoing operations. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31 and the related taxes become a lien at that time. The taxes are billed on December 1 of the following year. These taxes are due on February 14 with a final collection date of February 28 before they are added to the county tax rolls.

The 2004 taxable valuation of the City totaled \$393,935,000, on which ad valorem taxes levied consisted of 17.26 mills for the City's operating purposes, 3.00 mills for debt service, 0.93 mills for the library, and 2.00 mills for rubbish removal. The ad valorem taxes raised \$6,812,000 for general operations, \$1,176,000 for debt service, \$364,000 for the library, and \$785,000 for rubbish removal. These amounts are recorded in their respective funds as tax revenue.

Deferred Revenue - Property taxes billed during the month of December 2005 will be used to finance 2006 operations. As such, these taxes are unearned and recorded as deferred revenue in the respective funds at December 31, 2005.

Inventories and Prepaid Items - Inventories in the governmental funds are recorded at cost; fund balance has been reserved in an equal amount. Certain payments, such as insurance premiums, reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure:

Roads	25 years
Sidewalks	20 years
Storm drains	40 years
Land improvements	15-20 years
Buildings and improvements	25-50 years
Vehicles	5-15 years
Office furnishings	10-20 years
Machinery and equipment	5-20 years
Water and sewer system	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary fund statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate their employment.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are also approved by the City Council. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. During the current year, the budget was not amended for any fund.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgetary comparison schedules are presented on the same basis of accounting used in preparing the adopted budget.

The budget document presents information by fund, activity, and line item. The level of budgetary control adopted by the City Council is the activity level. Expenditures at this level in excess of appropriations are a violation of State law. A comparison of the adopted budget with the actual revenue and expenditures for the year for the General Fund and the major Special Revenue Funds is presented as required supplemental information following the notes to the financial statements.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Safety - Law enforcement expenditures in the General Fund were approximately \$300,000 higher than the appropriation as a result of overtime expenditures being higher than the amount anticipated.

Library - Capital outlay expenditures in the Library Fund were approximately \$1,190,000 higher than the appropriation due to the library renovation project not commencing when planned in 2004. As a result, in 2004, capital outlay on this project was approximately \$740,000 below budget. In 2005, the bulk of the construction was performed, which was not anticipated when the entire renovation project expenditure budget was originally approved and resulted in significant expenditures over the 2005 budget.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with State law.

The Employees' Retirement System is also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk - City-wide Bank Deposits and Investments - Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned. The City's investment policy requires that the City limit investments to the safest types of securities, prequalify the financial institutions, brokers, dealers, intermediaries, and advisors with which the City does business, and diversify the investment portfolio so potential losses on individual securities will be minimized. At year end, the City had \$4.4 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty or by its trust department or agent but not in the City's name:

Investment Type	Fair Value of Pension Trust and Retiree Health Care Funds	How Held
United States government agency securities	\$ 4,259,208	Counterparty
Corporate bonds	8,054,639	Counterparty
Equity securities	<u>24,712,916</u>	Counterparty
Total uninsured and unregistered	<u>\$ 37,026,763</u>	

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City had the following investments and maturities:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Fair Value of		
			Less than 6 Years	6-15 Years	Greater than 15 Years
Bank investment pool	\$ 4,620,658	\$ -	\$ 4,620,658	\$ -	\$ -
United States government agency securities	1,378,018	4,259,208	1,378,018	518,219	3,740,989
Corporate bonds	-	8,054,639	2,161,845	4,940,806	951,988

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
United States government agency securities:			
Federal Home Loan Mortgage Corporation	\$ 2,517,261	Not rated	Not rated
Federal National Mortgage Association	1,654,622	Not rated	Not rated
Government National Mortgage Association	87,325	Not rated	Not rated
Bank investment pool	4,004,218	Not rated	Not rated
Bank investment pool	616,440	AAA	Standards and Poor's
Corporate bonds	8,936,546	BB+ to AAA	Standards and Poor's

Concentration of Credit Risk - The City and the City's Pension Fund do not limit investments in any one issuer. At December 31, 2005, the City's Pension Fund maintained investments in the Federal Home Loan Mortgage Corporation totaling approximately 6.8 percent of the Pension Fund's total investments.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance - January 1, 2005	Additions	Disposals and Adjustments	Balance - December 31, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 760,574	\$ -	\$ -	\$ 760,574
Construction in process	463,851	3,191,547	3,655,398	-
Subtotal	1,224,425	3,191,547	3,655,398	760,574
Capital assets being depreciated:				
Infrastructure:				
Roads	15,059,491	789,010	-	15,848,501
Sidewalks	1,119,044	-	-	1,119,044
Storm drains	10,890,938	-	-	10,890,938
Land improvements	16,502	-	(23,697)	40,199
Buildings and improvements	1,027,486	124,829	(3,358,343)	4,510,658
Vehicles	2,842,858	84,885	-	2,927,743
Office furnishings	43,540	-	(191,981)	235,521
Machinery and equipment	2,296,285	43,768	(78,397)	2,418,450
Subtotal	33,296,144	1,042,492	(3,652,418)	37,991,054
Accumulated depreciation:				
Infrastructure:				
Roads	3,076,503	618,160	-	3,694,663
Sidewalks	619,434	55,952	-	675,386
Storm drains	3,476,103	272,273	-	3,748,376
Land improvements	5,846	1,733	-	7,579
Buildings and improvements	644,109	83,874	-	727,983
Vehicles	2,011,784	189,062	-	2,200,846
Office furnishings	8,644	7,046	-	15,690
Machinery and equipment	918,566	126,587	746	1,044,407
Subtotal	10,760,989	1,354,687	746	12,114,930
Net capital assets being depreciated	22,535,155	(312,195)	(3,653,164)	25,876,124
Net capital assets	\$ 23,759,580	\$ 2,879,352	\$ 2,234	\$ 26,636,698

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 4 - Capital Assets (Continued)

	Balance - January 1, 2005	Additions	Disposals and Adjustments	Balance - December 31, 2005
Business-type Activities				
Capital assets being depreciated:				
Water system	\$ 5,110,535	\$ -	\$ -	\$ 5,110,535
Sewer system	1,240,998	-	-	1,240,998
Machinery and equipment	<u>62,132</u>	<u>-</u>	<u>-</u>	<u>62,132</u>
Subtotal	6,413,665	-	-	6,413,665
Accumulated depreciation:				
Water system	2,016,364	107,904	-	2,124,268
Sewer system	949,205	21,300	-	970,505
Machinery and equipment	<u>62,132</u>	<u>-</u>	<u>-</u>	<u>62,132</u>
Subtotal	<u>3,027,701</u>	<u>129,204</u>	<u>-</u>	<u>3,156,905</u>
Net capital assets being depreciated	<u>\$ 3,385,964</u>	<u>\$ (129,204)</u>	<u>\$ -</u>	<u>\$ 3,256,760</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 25,808
Public safety	155,592
Public works	1,027,713
Recreation and culture	<u>145,574</u>
Total governmental activities	<u>\$ 1,354,687</u>
Business-type activity - Water and Sewer	<u>\$ 129,204</u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Interfund Receivables, Payables, and Transfers

Below are the interfund receivables of the City at December 31, 2005:

Receivable Fund	Payable Fund	Amount
General Fund	Storm Drain Fund	\$ 694,356
	Water and Sewer Fund	1,352,773
	Nonmajor governmental funds	1,743,919
	Internal Service Funds	<u>1,564,510</u>
Total General Fund		5,355,558
Municipal Improvements Fund	General Fund	588,017
	General Obligations Bonds Fund	<u>270</u>
Total Municipal Improvements Fund		588,287
Library Fund	General Fund	401,900
	Municipal Improvements Fund	<u>100,000</u>
Total Library Fund		501,900
General Obligations Bonds Fund	General Fund	233,774
	Library Fund	<u>193,504</u>
Total General Obligations Bonds Fund		427,278
Nonmajor Governmental Funds	General Fund	1,368,228
	General Obligations Bonds Fund	1,578,098
	Storm Drain Fund	531,022
	Municipal Improvements Fund	858
	Water and Sewer Fund	334,845
	Nonmajor governmental funds	<u>843,383</u>
Total nonmajor governmental funds		4,656,434
Internal Service Funds	General Fund	1,048,933
	Library Fund	622
	Municipal Improvements Fund	73,522
	Water and Sewer Fund	472,133
	Nonmajor governmental funds	<u>738,986</u>
Total Internal Service Funds		2,334,196
Water and Sewer Fund	Storm Drain Fund	<u>421,503</u>
Total interfund receivables		<u>\$ 14,285,156</u>

Interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

	General Fund	Transfers Out	
		Municipal Improvement Fund	Other Nonmajor Funds
Transfers in:			
General Fund	\$ -	\$ -	\$ 195,000 (3)
Library Fund	-	100,000 (2)	-
Other nonmajor funds	<u>100,000</u> (1)	<u>-</u>	<u>254,000</u> (4)
Total	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 449,000</u>

- (1) Transfer of discretionary funds for street construction
- (2) Transfer of discretionary funds for capital improvement project
- (3) Transfer of discretionary funds for insurance and separation pay expenditures
- (4) Transfer of discretionary funds for local street construction and capital improvement projects

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 6 - Long-term Debt

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Unlimited Tax General Obligation Bonds:						
1995 General Obligation Road Bonds:						
Amount of issue - \$5,000,000	4.00% -	\$300,000 -				
Maturing through 2011	5.40%	\$500,000	\$ 2,975,000	\$ (350,000)	\$ 2,625,000	\$ 400,000
1999 General Obligation Road Bonds:						
Amount of issue - \$5,000,000	4.125% -	\$50,000 -				
Maturing through 2014	5.00%	\$1,000,000	4,700,000	(100,000)	4,600,000	100,000
2001 General Obligation Road Bonds:						
Amount of issue - \$1,500,000	4.00% -	\$50,000 -				
Maturing through 2014	5.00%	\$250,000	1,350,000	(100,000)	1,250,000	100,000
2004 General Obligation Library Bonds:						
Amount of issue - \$3,100,000	3.30% -	\$25,000 -				
Maturing through 2024	5.00%	\$325,000	3,100,000	(25,000)	3,075,000	50,000
Total general obligation bonds			12,125,000	(575,000)	11,550,000	650,000
County Drain Obligations - Milk River Drain	2.00% -	\$565,232 -				
	4.65%	\$688,108	5,113,451	(581,030)	4,532,421	596,829
Installment purchase obligations:						
Amount of issue - \$440,770	5.83% -					
Maturing through 2006	5.91%		191,483	(93,017)	98,466	98,466
Accumulated employee benefits			1,535,575	(151,747)	1,383,828	300,000
Total governmental activities			\$ 18,965,509	\$ (1,400,794)	\$ 17,564,715	\$ 1,645,295

The City has pledged its full faith and credit to pay its proportionate share of the outstanding debt issued by the Milk River Inter-County Drainage District. The total Milk River Inter-County Drainage District debt consists of three loans and two bond issues with an original face value of approximately \$31,750,000 and an outstanding balance of approximately \$14,550,000 at December 31, 2005.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the governmental bond and installment purchase obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 1,345,295	\$ 627,937	\$ 1,973,232
2007	1,364,382	572,672	1,937,054
2008	1,508,692	515,484	2,024,176
2009	1,574,490	452,927	2,027,417
2010	1,643,799	388,832	2,032,631
2011-2015	6,619,229	979,080	7,598,309
2016-2020	975,000	362,569	1,337,569
2021-2024	1,150,000	1,838,362	2,988,362
Total	<u>\$ 16,180,887</u>	<u>\$ 5,737,862</u>	<u>\$ 21,918,749</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Risk Management (Continued)

The City is also exposed to risk of loss as a result of flood damage to resident properties caused by sewage overflows. Previously, incidents such as these were generally considered “acts of God” for which the City was not liable. However, as a result of a recent Michigan Supreme Court ruling, the City could now be liable for flood damages due to sewage overflows. Public Act 222 of 2001 has tempered this court ruling by requiring affected customers to prove that an action by the City was more than 50 percent of the cause in order to support any claim against the City. In May 2002, the City Council adopted an ordinance consistent with the new State statute to further protect the City from sewer backup claims. The City has not purchased commercial insurance to cover such claims. There is no liability outstanding as of December 31, 2005 and the City believes that there are sufficient resources in the Self-insurance Internal Service Fund to cover potential claims that may arise in the near term.

Note 8 - Retirement System

Plan Description

The City of Harper Woods Employees’ Retirement System (the “System”) is the administrator of a single-employer defined benefit pension plan (the “Plan”) that covers all full-time employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 88 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 105 current active employees. The Plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City’s competitive bargaining units and requires a contribution from the employees ranging from 5.0 percent to 7.25 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the Plan are financed through investment earnings.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 8 - Retirement System (Continued)

Annual Pension Cost

For the year ended December 31, 2005, the City's annual pension cost of \$149,082 for the plan was equal to the City's required and actual contribution. The annual required contribution is determined as part of an actuarial valuation at December 31, 2004, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.0 percent to 8.8 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Reserves

As of December 31, 2005, the Plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 7,126,486
Reserve for retired benefit payments	17,802,757

Three-year Trend Information

	Year Ended December 31		
	2005	2004	2003
Annual pension costs (APC)	\$ 149,082	\$ -	\$ -
Percentage of APC contributed	100%	N/A	N/A
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Joint Venture

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe, Grosse Pointe Shores, Grosse Pointe Woods, Mount Clemens, and the Township of Clinton. The City Council appoints one member to the joint venture's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of costs.

The City's interest in the net assets of the Authority totaled \$68,483 at December 31, 2005 and is reported as part of the governmental activities in the statement of net assets. The Authority is expected to sell real estate assets in future years. It is unknown what benefit the City will realize as a result of these transactions. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional benefit or burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 87 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$923,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care and other postemployment benefits (all benefits other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2005

Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity is as follows:

Cumulative shortfall - January 1, 2005	\$ (220,502)
2005 construction code revenue	114,370
2005 construction code expenditures:	
Direct costs	\$ 98,771
Estimated indirect costs	<u>9,877</u>
Total construction code expenditures	<u>108,648</u>
Excess of revenue over expenditures	<u>5,722</u>
Cumulative shortfall - December 31, 2005	<u><u>\$ (214,780)</u></u>

Note 12 - Designated Fund Balance

Designated fund balance in the governmental funds at December 31, 2005 is as follows:

	General Fund	Library Fund	Municipal Improvements Fund	Storm Drain Fund	Other Nonmajor Governmental Funds
Subsequent year's budget	\$ 964,600	\$ 12,800	\$ -	\$ 170,000	\$ 334,000
Separation pay	-	-	-	-	880,000
Municipal improvement	-	-	2,937,789	-	-
Total	<u>\$ 964,600</u>	<u>\$ 12,800</u>	<u>\$ 2,937,789</u>	<u>\$ 170,000</u>	<u>\$ 1,214,000</u>

Note 13 - Contingencies

The City is a defendant in various legal actions that have arisen in the normal course of business. In the opinion of management, eventual resolution of these claims will not have a material effect on the City's financial position or results of operations.

Required Supplemental Information

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original and Final Amended Budget	Actual	Variance with Final Amended Budget
Revenue			
Property taxes	\$ 6,782,000	\$ 6,811,952	\$ 29,952
Federal sources	-	79	79
State sources	1,635,000	1,584,119	(50,881)
Charges for services	1,523,600	1,675,284	151,684
Interest	60,000	101,951	41,951
Licenses and permits	83,500	126,483	42,983
Other	231,000	403,458	172,458
Total revenue	10,315,100	10,703,326	388,226
Expenditures - Current			
General government:			
City Council	28,700	25,663	3,037
District Court	561,800	532,620	29,180
City Manager	163,000	144,011	18,989
City Clerk/Elections	189,600	163,296	26,304
General services administration	629,800	685,250	(55,450)
Public transit	280,800	277,813	2,987
Other	3,237,100	3,145,830	91,270
Public safety:			
Law enforcement	3,371,400	3,671,025	(299,625)
Fire coverage	1,391,000	1,329,951	61,049
Other	102,200	98,771	3,429
Public works	488,100	502,342	(14,242)
Recreation and culture	511,900	472,037	39,863
Total expenditures	10,955,400	11,048,609	(93,209)
Excess of Expenditures Over Revenue	(640,300)	(345,283)	295,017
Other Financing Sources (Uses)			
Transfers in	200,000	195,000	(5,000)
Transfers out	-	(100,000)	(100,000)
Total other financing sources	200,000	95,000	(105,000)
Net Change in Fund Balances	(440,300)	(250,283)	190,017
Fund Balance - January 1, 2005	2,098,747	2,098,747	-
Fund Balance - December 31, 2005	<u>\$ 1,658,447</u>	<u>\$ 1,848,464</u>	<u>\$ 190,017</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Library Fund Year Ended December 31, 2005

	Original and Final Amended Budget	Actual	Variance with Final Amended Budget
Revenue			
Property taxes	\$ 349,500	\$ 364,022	\$ 14,522
State sources	12,000	6,201	(5,799)
Interest	500	36,988	36,488
Other	34,925	55,639	20,714
Total revenue	396,925	462,850	65,925
Expenditures - Current			
General government - General services administration	3,800	4,000	200
Recreation and culture	422,800	370,711	(52,089)
Capital outlay	1,998,750	3,191,549	1,192,799
Total expenditures	2,425,350	3,566,260	1,140,910
Excess of Expenditures Over Revenue	(2,028,425)	(3,103,410)	(1,074,985)
Other Financing Sources - Transfers in	-	100,000	100,000
Net Change in Fund Balances	(2,028,425)	(3,003,410)	(974,985)
Fund Balance - January 1, 2005	3,070,925	3,070,925	-
Fund Balance - December 31, 2005	<u>\$ 1,042,500</u>	<u>\$ 67,515</u>	<u>\$ (974,985)</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Municipal Improvements Fund Year Ended December 31, 2005

	Original and Final Amended Budget	Actual	Variance with Budget
Revenue - Interest income	\$ 36,500	\$ 85,448	\$ 48,948
Expenditures - Capital outlay	-	124,829	(124,829)
Excess of Revenue Over (Under) Expenditures	36,500	(39,381)	(75,881)
Other Financing Uses - Transfers out	(50,000)	(100,000)	(50,000)
Net Change in Fund Balances	(13,500)	(139,381)	(125,881)
Fund Balance - January 1, 2005	3,077,170	3,077,170	-
Fund Balance - December 31, 2005	<u>\$ 3,063,670</u>	<u>\$ 2,937,789</u>	<u>\$ (125,881)</u>

City of Harper Woods, Michigan

Required Supplemental Information Employees' Retirement System Schedule of Funding Progress December 31, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
12/31/99	\$ 39,346,905	\$ 30,659,575	\$ (8,687,330)	128.3	\$ 5,178,301	(167.8)
12/31/00	42,068,214	31,082,713	(10,985,501)	135.3	5,400,958	(203.4)
12/31/01	43,635,585	34,855,217	(8,780,368)	125.2	5,433,995	(161.6)
12/31/02	42,319,742	36,049,125	(6,270,617)	117.4	5,619,098	(111.6)
12/31/03	42,381,685	38,175,120	(4,206,565)	111.0	6,038,012	(69.7)
12/31/04	40,593,702	39,976,469	(617,233)	101.5	6,234,491	(9.9)

City of Harper Woods, Michigan

Required Supplemental Information Employees' Retirement System Schedule of Employer Contributions December 31, 2005

Year Ended December 31	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
1999	12/31/1998	\$ 268,564	100
2000	12/31/1999	-	N/A
2001	12/31/2000	-	N/A
2002	12/31/2001	-	N/A
2003	12/31/2002	-	N/A
2004	12/31/2003	-	N/A
2005	12/31/2004	149,082	100

The information presented above was determined as part of the actuarial valuations at the dates indicated.

Additional information as of December 31, 2004, the date of the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.0%-8.8%
*Includes inflation at	5.0%
Cost of living adjustments	None

Other Supplemental Information

City of Harper Woods, Michigan

	Nonmajor Special				
	Major	Local		Community	
	Streets Fund	Streets Fund	Refuse	Development	Loan Revolving
				Block Grant	
Assets					
Cash and investments	\$ 27,738	\$ -	\$ 1,439,969	\$ -	\$ 379,287
Receivables:					
Taxes	-	-	425,279	-	-
Interest and other	-	9	1,317	-	12,601
Other governmental units	81,460	34,612	-	31,835	15,588
Inventories and prepaid expenses	8,582	-	-	-	-
Due from other funds	1,057,230	1,969,935	686,874	62,395	-
Total assets	<u>\$ 1,175,010</u>	<u>\$ 2,004,556</u>	<u>\$ 2,553,439</u>	<u>\$ 94,230</u>	<u>\$ 407,476</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 11,525	\$ 5,186	\$ 57,933	\$ -	\$ -
Accrued and other liabilities	393	4,783	15,374	-	-
Due to other funds	884,896	1,924,703	289,135	92,335	110,221
Rehabilitation escrow	-	-	-	-	297,255
Deferred property tax revenue	-	-	809,944	1,895	-
Total liabilities	896,814	1,934,672	1,172,386	94,230	407,476
Fund Balances					
Reserved:					
Inventories and prepaid expenses	8,582	-	-	-	-
Drug law enforcement	-	-	-	-	-
Unreserved:					
Designated:					
Subsequent year's budget	161,000	37,000	133,000	-	-
Separation pay	-	-	-	-	-
Undesignated	108,614	32,884	1,248,053	-	-
Total fund balances	278,196	69,884	1,381,053	-	-
Total liabilities and fund balances	<u>\$ 1,175,010</u>	<u>\$ 2,004,556</u>	<u>\$ 2,553,439</u>	<u>\$ 94,230</u>	<u>\$ 407,476</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005**

Revenue Funds		Total Nonmajor Governmental Funds
Drug Law Enforcement	Separation Pay	
\$ 115,667	\$ -	\$ 1,962,661
-	-	425,279
139	-	14,066
-	-	163,495
-	-	8,582
-	880,000	4,656,434
\$ 115,806	\$ 880,000	\$ 7,230,517

\$ 388	\$ -	\$ 75,032
-	-	20,550
25,000	-	3,326,290
-	-	297,255
-	-	811,839
25,388	-	4,530,966

-	-	8,582
87,418	-	87,418

3,000	-	334,000
-	880,000	880,000
-	-	1,389,551

90,418	880,000	2,699,551
--------	---------	-----------

\$ 115,806	\$ 880,000	\$ 7,230,517
-------------------	-------------------	---------------------

City of Harper Woods, Michigan

	Nonmajor Special				
	Major Streets Fund	Local Streets Fund	Refuse	Community Development Block Grant	Loan Revolving
Revenue					
Property taxes	\$ -	\$ -	\$ 784,740	\$ -	\$ -
Federal sources	-	-	-	96,263	-
State sources	529,068	224,835	-	-	-
Charges for services	-	-	103,747	-	-
Interest	1,042	153	60,378	-	6,494
Miscellaneous revenue	26,078	11,177	-	-	747
Total revenue	556,188	236,165	948,865	96,263	7,241
Expenditures - Current					
General government	39,500	39,000	8,000	35,700	-
Public safety	-	-	-	-	-
Public works	806,747	548,061	966,279	60,563	7,241
Total expenditures	846,247	587,061	974,279	96,263	7,241
Excess of Revenue Over (Under) Expenditures	(290,059)	(350,896)	(25,414)	-	-
Other Financing Sources (Uses)					
Transfers in	-	234,000	-	-	-
Transfers out	(134,000)	-	(120,000)	-	-
Net Change in Fund Balances	(424,059)	(116,896)	(145,414)	-	-
Fund Balances - Beginning of year	702,255	186,780	1,526,467	-	-
Fund Balances - End of year	<u>\$ 278,196</u>	<u>\$ 69,884</u>	<u>\$ 1,381,053</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2005

Revenue Funds		Total Nonmajor Governmental Funds
Drug Law Enforcement	Separation Pay	
\$ -	\$ -	\$ 784,740
-	-	96,263
-	-	753,903
-	-	103,747
233	-	68,300
15,106	-	53,108
15,339	-	1,860,061
2,630	-	124,830
9,603	-	9,603
-	-	2,388,891
12,233	-	2,523,324
3,106	-	(663,263)
-	-	234,000
(25,000)	(120,000)	(399,000)
(21,894)	(120,000)	(828,263)
112,312	1,000,000	3,527,814
<u>\$ 90,418</u>	<u>\$ 880,000</u>	<u>\$ 2,699,551</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds - Agency Funds December 31, 2005

	<u>Tax Collection</u>	<u>District Court</u>	<u>Total</u>
Assets - Cash	<u>\$ 3,073,875</u>	<u>\$ 55,366</u>	<u>\$ 3,129,241</u>
Liabilities			
Tax collections distributable	\$ 3,073,875	\$ -	\$ 3,073,875
Bond deposits	-	35,888	35,888
Due to other governmental units	<u>-</u>	<u>19,478</u>	<u>19,478</u>
Total liabilities	<u>\$ 3,073,875</u>	<u>\$ 55,366</u>	<u>\$ 3,129,241</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds December 31, 2005

	Equipment Fund	Self-insurance Fund	Total
Assets			
Current assets:			
Cash and investments	\$ 18,461	\$ -	\$ 18,461
Due from other funds	<u>1,285,263</u>	<u>1,048,933</u>	<u>2,334,196</u>
			-
Total current assets	1,303,724	1,048,933	2,352,657
Noncurrent assets - Capital assets being depreciated - Net	<u>280,997</u>	<u>-</u>	<u>280,997</u>
Total assets	1,584,721	1,048,933	2,633,654
Current Liabilities			
Accounts payable	5,286	-	5,286
Accrued and other liabilities	2,219	-	2,219
Due to other funds	<u>1,564,510</u>	<u>-</u>	<u>1,564,510</u>
Total current liabilities	<u>1,572,015</u>	<u>-</u>	<u>1,572,015</u>
Net Assets			
Invested in capital assets	280,997	-	280,997
Unrestricted net assets (deficit)	<u>(268,291)</u>	<u>1,048,933</u>	<u>780,642</u>
Total net assets	<u>\$ 12,706</u>	<u>\$ 1,048,933</u>	<u>\$ 1,061,639</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended December 31, 2005

	Equipment Fund	Self-insurance Fund	Total
Operating Revenue - Billings to other funds	\$ 210,324	\$ -	\$ 210,324
Operating Expenses			
Cost of materials	78,965	-	78,965
Maintenance and operation	171,284	-	171,284
General and administrative expenses	68,000	-	68,000
Depreciation	77,492	-	77,492
Total operating expenses	395,741	-	395,741
Operating Loss	(185,417)	-	(185,417)
Nonoperating Revenue - Interest income	512	-	512
Other Financing Sources (Uses)			
Transfers in	120,000	-	120,000
Transfers out	-	(50,000)	(50,000)
Net Change in Net Assets	(64,905)	(50,000)	(114,905)
Net Assets - Beginning of year	77,611	1,098,933	1,176,544
Net Assets - End of year	<u>\$ 12,706</u>	<u>\$ 1,048,933</u>	<u>\$ 1,061,639</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended December 31, 2005

	Equipment Fund	Self-insurance Fund	Total
Cash Flows from Operating Activities			
Receipts from other funds	\$ 32,674	\$ -	\$ 32,674
Payments to suppliers, employees, and other funds	<u>(32,674)</u>	<u>-</u>	<u>(32,674)</u>
Net cash provided by operating activities	-	-	-
Cash Flows from Investing Activities - Interest received on investments	<u>512</u>	<u>-</u>	<u>512</u>
Net Increase in Cash and Cash Equivalents	512	-	512
Cash and Cash Equivalents - Beginning of year	<u>17,949</u>	<u>-</u>	<u>17,949</u>
Cash and Cash Equivalents - End of year	<u>\$ 18,461</u>	<u>\$ -</u>	<u>\$ 18,461</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (185,417)	\$ -	\$ (185,417)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	77,492	-	77,492
Changes in assets and liabilities:			
Due from other funds	(177,650)	-	(177,650)
Due to other funds	292,376	-	292,376
Accounts payable	(4,369)	-	(4,369)
Accrued and other liabilities	<u>(2,432)</u>	<u>-</u>	<u>(2,432)</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There were no significant noncash investing or financing activities during the year ended December 31, 2005.



Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

May 24, 2006

To the Honorable Mayor and
Members of the City Council
City of Harper Woods
19617 Harper Avenue
Harper Woods, MI 48225

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Harper Woods (the "City") for the year ended December 31, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Overview of the City's Financial Condition

During the year ended December 31, 2005, General Fund expenditures exceeded revenues by approximately \$250,283. The fund balance at December 31, 2005 totaled approximately \$1,848,000. Of this amount, \$1,163,000 is reserved and designated for specific purposes and \$685,000 is undesignated. The undesignated portion represents approximately 6 percent of budgeted 2006 expenditures. This percentage is approximately 7 percent below prior years and is primarily due to the budgeted deficit in this fund for 2006.

As you are aware, the City continues to be faced with budgetary challenges. Many challenges, including further uncertainties regarding state-shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded postemployment benefit obligations, are characteristics of the City and its physical framework. We encourage the city council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate.

We also recommend that the five-year General Fund financial forecasting model be updated to allow the City to better predict the effects of revenue changes and the impact those changes have on the City's ability to provide services. It is important that the City maintain an adequate level of working capital and fund balance to adjust to financial changes without affecting the level of services provided to citizens or the City's ability to fund future obligations.

A member of



A worldwide association of independent accounting firms

State Revenue Sharing

The continued sluggishness in the State's economy continues to directly impact revenue-sharing payments. State-shared revenue accounts for approximately 15 percent of the City's General Fund revenues. Though the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) have been near what was expected, the State continues to experience budget problems as a result of disappointing collections of State income tax and single business tax. For the time being, local units of government have been spared additional revenue-sharing cuts for the State's fiscal year ending September 30, 2006, as the governor's 2006 budget holds the State revenue-sharing payments at approximately the 2004/2005 levels. However, there can be no guarantees that further revenue-sharing cuts will not be made in future periods as the State continues to battle with its budget difficulties.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, there appears to be no long-term solution to the State's structural deficit in its General Fund. As long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of the significant uncertainty that surrounds State revenue-sharing payments, we recommend that the City continue to evaluate the impact of the revenue-sharing reductions as you amend your 2006 budget and plan for your 2007 budget. Updated information can be obtained from the Department of Treasury's web site at http://www.michigan.gov/treasury/0,1607,7-121-1751_2197---,00.html or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur.

Property Taxes

As you will recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%

The 2004 inflation factor was used for property taxes levied in the City's year ended December 31, 2005. As indicated above, growth in existing property is significantly limited due to Proposal A.

The Headlee Amendment to the Michigan Constitution also limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result of Headlee "roll backs," the City was able to levy only 17.26 mills for general operating purposes in 2005 as compared with the charter operating limit of 20.00 mills. This resulted in approximately \$1,079,000 of tax revenue that the City was not able to levy.

Retiree Health Care

As you are aware, the City provides postemployment benefits for all eligible employees that are funded currently from the General Fund. For the year ended December 31, 2005, the cost of these benefits amounted to approximately \$923,000, representing an increase of approximately 5 percent over the 2004 amount.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to obtain an actuarial valuation of the obligation to provide retiree health care benefits. In addition, the City's funding status or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the financial statements. Lastly, the City will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. The changes required under GASB Statement No. 45 will be effective in 2008. We would be happy to assist the City in further understanding the provisions of GASB Statement No. 45.

Investment Risk Disclosures

The City adopted Governmental Accounting Standards Board Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, during the year ended December 31, 2005. This pronouncement requires expanded disclosures in the financial statements of the risks associated with the City's investments and the City's policies for addressing those risks. GASB 40 separates the risk disclosures into five areas: custodial, interest rate, credit, concentration, and foreign currency.

We encourage the City to periodically review its investment policies to address any changes in the investment risk environment and to ensure that investment performance is in line with the City's goals.

Accounting and Administrative Matters

- Cash reconciliations are an integral part of internal controls over cash. During the course of our cash testing, we noted that these reconciliations were not always prepared on a timely basis and included unreconciled differences. In order to improve the tracking of and internal controls over cash, we recommend that the treasurer and finance departments meet on a monthly basis to go over the reconciliations and ensure that they are timely and accurately prepared.
- When reviewing the City's policies, it was brought to our attention that the City reimburses employees for travel expenses before the expense has been incurred by the employee. In order to reduce the accounting burden on the City and reduce the possibility of inappropriate or false expenses being inadvertently paid, we recommend that travel and other such expenses are reimbursed only after they are incurred by employees, who must then provide support for the expense.

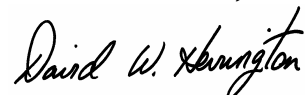
Condition of Accounting Records

We would like to compliment the city council and administration for the continued positive improvement made in the condition of the City's financial records and related documentation for the year ended December 31, 2005. Our testing has indicated that the City's finance and treasury departments have maintained and improved internal control over cash collection, cash disbursement, and payroll functions. We encourage the administration to commit to a plan of continuous improvement in the timeliness and accuracy of the financial reporting system, subject to cost/benefit constraints. Such improvements will increase control over the City's assets and provide the best information possible to the city council and administration for analysis and decision making.

We would like to thank the mayor and city council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. As always, we are pleased to discuss these comments, information presented in the financial statements, or any other matters with you at your convenience.

Very truly yours,

Plante & Moran, PLLC



David W. Herrington